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August 11, 2006

AGENDA ITEM 3a

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Revision of Global Public Real Estate Equity Securities (Global PREES)
- II. PROGRAM:** Real Estate – Global PREES
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of the revised Statement of Investment Policy for Global Public Real Estate Equity Securities (PREES)
- IV. ANALYSIS:**

On June 19, 2006, the Investment Committee approved Staff's recommendation to invest in a partnership to actively manage domestic PREES. Staff proposed the investment because it saw merit in a more defensive strategy in a perceived rich market potentially poised for a correction. The strategy is defensive because it allowed for short selling of real estate securities with certain limitations.

The Global PREES Statement of Investment Policy currently is silent on the issue of short selling. As stated in the agenda item presented to the Investment Committee in June, Staff is following up on adding language to the Policy to allow for short positions. Staff recommends that we revise the policy to be clear that it allows short positions in the portfolio if the portfolio is externally managed and if Staff and CalPERS' Consultant determine that the external manager has the requisite expertise to manage short positions.

Further, Staff has added the term "short selling" to the Real Estate Glossary. Also, PCA's concurrence letter is attached.

V. STRATEGIC PLAN:

This item supports Goal IX to achieve long-term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

This policy amendment will align policy with Investment Committee decisions.

Jane Delfendahl
Investment Officer

Judy Alexander
Portfolio Manager

Alfonso Fernandez
Interim Senior Investment Officer

Anne Stausboll
Assistant Executive Officer